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ONTARIO ECONOMIC COUNCIL

WHO ARE THE POOR?

950 YONGE ST.
TORONTO 5, ONTARIO

And Why Do We Have Poverty In An Affluent Society?

Excerpts from Poverty and Institutional Reform, a recently released report of the Ontario Economic Council. It is the second in a series dealing with economic, social and political issues related to the central problem of governmental reform.

"We believe that poverty is a real and acute problem in our country and in our province," says Ontario Economic Council Chairman William Cranston.

"But we are equally convinced that the problem cannot be solved unless there is a much better understanding of its nature. The present debate over the concept of a guaranteed annual income is a case in point.

"We do not," he continues, "have adequate income and expenditure information. We do not have sufficient knowledge about how people behave, what motivates them, what restricts or limits initiative. We do not have a comprehensive body of knowledge on human behavior--economically, politically or socially--to make anything more than a guess as to the possible effects of any such scheme.

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"Yet in this state of blissful ignorance we cheerfully debate the pros and cons of the most revolutionary idea in welfare economics in decades. Will we go with the debate for years, as we did with pensions and medicare, or will we set out to develop the appropriate information and experience?" Mr. Cranston asks.

"The Ontario Economic Council does not offer any panacea. Instead we offer a viewpoint from which it may be possible for the average citizen to better understand the complexity of poverty in an affluent society and thus judge the validity of specific programs that now exist or may in future be offered."

"Here," Mr. Cranston concludes, "are some of the conclusions reached so far by the 20 members of the Ontario Economic Council, representing universities and research foundations, private industry, commerce and finance, organized labor, consumer associations, agriculture, regional development councils and government."

Poverty is a residual of change.

In the transformation of our society from a basically agricultural, rural economy to an industrial, urban economy, the majority of Canadians acquired substantially higher levels of personal income. But many did not.

There are a variety of explanations offered. Some are based on the lack of individual effort; others stress environmental factors. None, however, provides the full answer.

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What is this state of affairs at present?

There is a great deal of work to be done.

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The failure of people, industries or regions to adjust to change is fundamental to the existence of widespread poverty in an affluent society and the reasons can be found in the process of change itself.

Change operates unevenly within a society. There are always some individuals, groups or industries in the forefront, leading the way. There are always some individuals, groups or industries that lag behind.

Those who do not change inevitably find that the world has passed them by and that their values and behavior patterns are no longer relevant. They find that their standard of living has fallen below that of society as a whole.

These are the poor. They are not equipped to obtain a reasonable income through participation in the economic system. They lack the skills, the education, the motivation. Lacking income, they are unable to acquire essential goods and services. Poor diets, ill health, inadequate housing and a host of other environmental factors interact to prevent them from breaking the culture of poverty.

That the circumstances vary, that the relative degree of poverty varies from area to area and from person to person, cannot be contested. We feel, however, that the roots of poverty rest in the process of social change and that the income and other methods of classifying poverty are inadequate either to measure precisely its incidence or its cause.

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The failure of certain institutions in certain countries

is often ascribed to the influence of indigenous society

in its economic structure and the failure can be found in the process

of social change.

These questions naturally arise in the mind. These are

always some individuals, groups or institutions in the country,

leading the way. There are always some individuals, groups or

institutions that lead the way.

There are also some individuals that lead the way

and others that do not. These individuals and institutions

are in different positions. They are in different positions in the

country and they are in different positions in the world.

There are the poor, the rich, the educated, the uneducated,

the modern, the traditional, the new, the old, the foreign,

the local, the foreign, the educated, the uneducated, the

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It is because of the relationship that exists between social factors and societal change that we are convinced that our assumptions about the welfare state and about the benefits of economic growth miss the central feature of poverty. As long as people have values and life styles that inhibit their ability to adjust to changing conditions, they will not be able to participate in a meaningful way in the broader society.

No small part of the answer then is to adjust the institutions of the broader society to take into account the values and life-styles of the poor. The reform of our social and economic institutions, is, therefore, essential.

For example, we must ensure that our institutions (labor unions, corporations, political parties, etc.) facilitate the involvement of the poor. Only if we can integrate the poor into society will the problem of poverty become manageable.

As long as the poor remain on the outside looking in, as long as they are the perpetual clients of the government bureaucrat or the voluntary association, they cannot be anything more than second class citizens.

The integration of the poor into the mainstream of Canadian society is a two-way street and will be very difficult to accomplish. Barriers to social mobility and economic opportunity exist in all our institutions. Corporation hiring and promotion policies, labor union activities, inadequate educational facilities, and a host of other factors operate to impede integration. The barriers must be removed.

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The process of institutional reform, of course, involves government along with institutions in the private sector. Political reform is necessary to ensure adequate representation of the poor in the public decision-making process. At the administrative level it is necessary to ensure that anti-poverty programs are co-ordinated to form a comprehensive whole. We can no longer afford the luxury of the patchwork quilt approach to our existing, often ineffective, welfare and developmental programs.

There is a pressing need to create new methods of handling poverty. We need more information. We need more flexibility and selectivity in our approach.

We have, in the past, tended to apply general programs on an across-the-board basis to meet problems that were basically different in origin and in severity. The universalistic approach has involved enormous cost and has failed to get at the real roots of poverty.

Today there is a pressing need for more specific, more localized and more concentrated effort to attack festering pockets of poverty that exist despite our past efforts. To accomplish this task we should rely far more heavily on experimental, action-research projects. From this will come the necessary knowledge and experience to build a bridge between the affluent and the poor and to make equality of opportunity more of a reality in our society.



ONTARIO ECONOMIC COUNCIL

NEWS RELEASE

950 YONGE ST
TORONTO 5, ONTARIO

COUNCIL REPORT WARNS
OF VIOLENCE FROM MILITANT
MINORITIES

RELEASE: TUESDAY, DEC. 16, 1969

TORONTO--An Ontario Economic Council report released today says that Canada's poor must be integrated into the mainstream of society--economically, politically, and socially--or the country could face organized violence.

The 40-page report, Poverty and Institutional Reform, says the problems inherent in a culture of poverty cannot be solved by government alone, but require greater participatory action by labor unions, churches, voluntary associations, and business corporations.

"The real challenge is to reform the existing institutions so that the poor can take part in the process of decision-making," the report says.

"Institutional reform designed to open up channels of communication and contact with the poor is the first priority in any realistic and comprehensive attack on the culture of poverty."

The report says to continue the "hand-out" approach would be disastrous.

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"Institutionalized charity, no matter how well intentioned, denies the basic dignity and humanity of the recipient."

Establishment of meaningful and productive contact with the poor will be difficult and frustrating, the report says, but failure to respond to the needs of the poor could result in militancy and outbreaks of violence.

"It would be tragic if this led...to the polarization of society into two camps: a militant minority organized into groups representing the poor lined up against the affluent majority.

"There is a trend toward militancy in organizations associated with poverty groups in our society. We have witnessed the heightening of tensions and the sporadic outbreaks of violence in the United States, Great Britain and other countries. We have had similar experiences in Canada.

"These are warning signs of the dangers inherent in a situation that inhibits adequate communication across class, religious, racial and economic lines. And it would be equally foolish not to recognize that there are groups in society which will attempt to exploit the cleavages that exist. Violence for the sake of violence is an acceptable political weapon for fringe groups on the political spectrum.

"To pretend that all this is a problem of other people in other countries dealing with other problems is to ignore the implications of the global village. Canadians, no less than anyone else, are profoundly influenced by what happens in the world around them."



ONTARIO ECONOMIC COUNCIL

NEWS RELEASE

950 YONGE ST
TORONTO 5, ONTARIO

URGE MORE CO-ORDINATION
OF ANTI-POVERTY PROGRAMS

RELEASE: TUESDAY, DEC. 16, 1969

TORONTO--The Ontario Economic Council said today government must be restructured at all levels to ensure that anti-poverty programs are integrated effectively and waste and duplication of effort are reduced to a minimum.

In a 40-page report, Poverty and Institutional Reform, the council says the present division of responsibilities between the federal, provincial, and municipal governments prevent a co-ordinated approach to anti-poverty measures.

"Every effort should be made to maximize the benefits to the recipient and to minimize the overhead or servicing costs," the report says.

It also urges a constant review of programs to ensure that people are not locked into poverty but are provided with avenues for economic and social mobility.

With current programs "splintered" into a host of operating agencies in all three levels of government, "it is difficult to see how any comprehensive and co-ordinated approach to poverty can be achieved... ."

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The report calls for establishment of new institutional arrangements to handle poverty, pollution, housing, and urban and regional planning.

The report also urges government to give the poor a better opportunity to become involved in the public decision-making process through more effective electoral representation and direct consultation in the design and implementation of programs.

"If significant segments of the community have no involvement in the decision-making process because they are politically inarticulate, the political system is not working properly," the report says.

It calls for greater community representation in government and gives, as an example, Toronto's new block ward system, which encompasses voters of relatively similar incomes and interests.

Besides geographical representation, the report says other new ways must be found to open up channels of communication with the poor in all sectors of social, economic, and political life.



ONTARIO ECONOMIC COUNCIL

NEWS RELEASE

950 YONGE ST.
TORONTO 5, ONTARIO

COUNCIL URGES GO SLOW
ON GUARANTEED ANNUAL WAGE

RELEASE: TUESDAY, DEC. 16, 1969

TORONTO--Ontario Economic Council today warned against establishment of a guaranteed annual wage or other anti-poverty programs until more data and information are collected.

Terming the annual guaranteed wage "the most revolutionary idea in welfare economics in decades," the council urged that a pilot project be carried out to determine the effects of such a program on its recipients.

"Let us try our new ideas on a localized experimental basis and see what happens," the council says, in a 40-page report, Poverty and Institutional Reform, presented today to the Ontario cabinet.

"If we succeed, the program can be expanded, the report says. "If we fail, at least we have learned something, and the cost is limited."

The report warns that government does not have sufficient knowledge of human behavior--economically, politically, or socially--with which to forecast the possible effects of such a scheme.

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"We do not have adequate income and expenditure data," the report says. "We do not have sufficient knowledge about how people behave, what motivates them, what restricts or limits initiative."

The council urges government to learn from the lessons of pensions and medicare, by developing the appropriate information and experience before implementing a guaranteed annual wage. At present, the council states, "we cheerfully debate the pros and cons in a state of blissful ignorance."

A restructuring of government at all levels to ensure that anti-poverty programs are integrated effectively and waste and duplication of effort are reduced to a minimum is a further OEC recommendation.

The report says the present division of responsibilities between the federal, provincial, and municipal governments makes most difficult any co-ordinated approach to anti-poverty measures.

The council also urges that the "disadvantaged" groups in Canada be given a greater political voice in government.

Accepting the Economic Council of Canada's figure that 20 per cent of the country's population is poor, the OEC warns that the poor must be integrated into the mainstream of society--economically, politically, and socially--or violence could occur.

The problems inherent in a "culture of poverty" cannot be solved by government alone, but require accelerated action by labor unions, churches, voluntary organizations, and business corporations, the report says.

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"The real challenge is to reform the existing institutions so that the poor can take part in the process of decision-making."

The report criticizes the "hand-out" approach to welfare.

"Institutionalized charity, no matter how well intentioned, denies the basic dignity and humanity of the recipient."

The council warns that failure to respond to the needs of the poor in Canada could result in militancy and outbreaks of violence similar to that experienced in United States, Great Britain, and several other countries.

Additional copies of Poverty and Institutional Reform are available from the Ontario Economic Council, 950 Yonge Street, Toronto, at \$2.00 per copy.



ONTARIO ECONOMIC COUNCIL

NEWS RELEASE

950 YONGE STREET
TORONTO 5, ONTARIO

1969 RESEARCH INDEX

RELEASE: WEDNESDAY, JAN. 14/70

TORONTO--A one-third increase over last year is shown in the Ontario Economic Council's index of research projects currently being undertaken by provincial government departments and agencies and by Ontario-based industries.

Fifth edition of the 250-page research index, published today, lists 909 projects as compared with 668 in 1968. Of the 1969 total, some 399 appear in the private sector and 510 in the public.

An index of 153 corporate research facilities is also listed by the Ontario Economic Council.

Covered is the work of over 1,170 researchers in the fields of agriculture, architecture, chemistry, computer science, earth sciences, engineering, forestry, physics, and life sciences.

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The index lists projects ranging all the way from sulphur dioxide air pollution and swimmers' itch to the separation of kraft mill effluent components and the economics of manure disposal.

Editor is Dr. A.D. Misener, a former member of the Economic Council of Ontario and now director of the Great Lakes Institute, University of Toronto. He was assisted by Ian Butters of the council's permanent staff.

William Cranston, Ontario Economic Council chairman, said the next research index will be published late in 1971.

A survey of the index's use within the research community and by industry, commerce, and public agencies in Ontario has indicated a continuing need for the book, he said. But since few major changes occur annually, the index will now be published every second year.



ONTARIO ECONOMIC COUNCIL

NEWS RELEASE

950 YONGE STREET
TORONTO 5, ONTARIO

1971 RESEARCH INDEX

RELEASE: TUESDAY, Feb. 15/72

TORONTO--Research projects - some 970 of them, in fact - are currently being undertaken in Ontario on subjects ranging from the holding power of sea anchors to a dial-a-bus experiment.

They are all listed in the 238-page, 1971 Research Index published by the Ontario Economic Council and edited by Dr. A.D. Misener, director, Great Lakes Institute, University of Toronto, and Ian Butters, of the O.E.C.

Dr. James Gillies, chairman of the O.E.C., said: "This sixth edition is the first, we hope, in a continuing series of biennial editions indexing research projects being undertaken by Ontario government departments and agencies, and by companies operating in Ontario, in the fields of agriculture, architecture, chemistry, computer science, earth sciences, engineering, forestry, life sciences and physics."

A subject index is the basic cross-reference for readers wishing to know what is being done in Ontario (universities excepted) on research into a particular item.

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(The National Research Council prepares a listing of programs in universities.)

A few research examples are:

The economics of farm separated cream production; development of new roof, floor and wall panel systems and methods; integrated system of identifying fibres in the forensic laboratory; educational computer laboratory; prediction of Lake Erie levels after storms; feasibility of "home" separation of municipal waste; industrial noise investigation and machine noise control; natural gas fueled vehicles; development of trees resistant to sulphur dioxide pollution; population and ecology of predators - wolf, coyote, black and polar bear, and methods of arctic pipeline construction.

The new index shows an increase of 64 research projects over those listed in 1970. Government projects total 540 and industry's, 433.

Copies of the report may be obtained from the Ontario Government Bookstore, 880 Bay Street, Toronto.

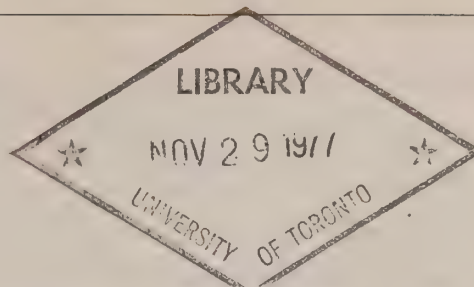


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FOR RELEASE: Wednesday 23 November 1977

AN ECONOMIC ANALYSIS OF THE HALL COMMISSION REPORT, by Professor Alan Abouchar, the first in a new Discussion Paper series prepared for and published by the Ontario Economic Council. Copies are available only at the Ontario Government Bookstore, 880 Bay Street, Toronto, Ontario M7A 1N8. Price: \$1.00.

TORONTO, November 23 -- Price distortions and subsidies only encourage inefficiencies in the Canadian transport sector and should be eliminated, says University of Toronto professor Alan Abouchar in a discussion paper published today by the Ontario Economic Council.

Abouchar's study deals with last May's Hall Commission report, which was prepared by the three prairie provinces and reported on a vast range of issues relating to the prairie grain economy.

- While recognizing that many of the Hall Commission's recommendations are clearly desirable, Prof. Abouchar concludes that many are at variance with what are, or should be, the proper goals of public policy. He stresses the need for prices to reflect real social costs, except where some explicit income distribution or political objective is evident.

He points out that there are few such justifications today, and he believes the Commission has not succeeded in justifying any, with the possible exception of the proposed subsidy to municipalities, which will lose a large part of their tax base because of the rail closings (almost 2,200 miles of track) recommended by the Hall Commission.

In general, Abouchar believes economic policy should be set more toward the eliminations of price distortions and subsidies, whose only effect on economic activity must be "presumed to encourage inefficiency." He says this approach is consistent with the stated views of the federal government and with the Hall Commission itself, which urged the elimination of distortions on certain traffics, such as those which the Hall Commission believes have prejudiced producers' decisions concerning flour milling and meatpacking.

The impact on Ontario of the Hall Commission's recommendations would not be essentially different from that of other provinces. The major impact would take the form of increased contributions from Ontario to cover any new subsidies required. Some expenditure by the province might also be necessary on the proposed port improvement in operating procedures in Thunder Bay.

The author notes that the Commission's study is unclear as to the source of the \$445 million needed to upgrade grain related rail lines. The intended source appears to be the federal government, which would represent yet another distortion in the nation's transportation price structure.

Prof. Abouchar also points to various defects in the highway user structure. The increased traffic expected to move by truck following the closing of rail tracks will increase the cost of highway maintenance, while generating insufficient user charge contributions. If this is the case, Abouchar believes the entire structure of user charges, principally registration fees and fuel taxes on the intercity network, should be examined.

The author also recommends that "all statutory bases for freight rates, with the possible exception of the Maritime Freight Rates Act, be reviewed and probably eliminated on the grounds that they represent distortions in the Canadian price system." If some kind of income advantage is deemed desirable for marginal farms, and/or if it is desirable to stabilize farm income, Prof. Abouchar recommends a system of compensation by the Canadian Wheat Board or provincial wheat pools rather than the subsidized freight rate structure.

Regarding the proposed subsidy to municipalities affected by the proposed rail closings, the author recommends that the revenue from these abandoned tracks be turned over to these municipalities, and any tax loss compensation be adjusted accordingly. He further recommends that grants to these municipalities be made on a decreasing basis over an eight-year period, in contrast to the Hall Commission's recommendation that the amount be paid in one lump sum, to allow these local governments to plan better the phasing out of certain operations.

"Interested agencies will find much value in the Hall Commission's report," says Prof. Abouchar, "especially in the recommendations concerning grading practices and operating, organizational and handling procedures."

Professor Abouchar's discussion paper was prepared under the auspices of the Ontario Economic Council, an autonomous research agency funded by the Province of Ontario. The Council acts as an independent advisor to government and all political parties, undertakes research and policy studies to encourage the optimum development of the human and material resources of Ontario, and to support the advancement of all sectors of the Province. The Council achieves these goals by sponsorship of research projects, publication of studies, and organization of the Outlook and Issues conferences and seminars which are open to the public.

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NOTE: A list of persons to contact for further information, a brief biographical sketch of the author, and a selection of quotations from the study are attached.

FOR FURTHER INFORMATION, CONTACT:

Alan Abouchar, Author, (416) 978-3334

Dennis Forristal, public relations counsel, (416) 481-4438

Donald A. Dawson, Research Director, Ontario Economic Council
(416) 965-4315

Grant L. Reuber, Chairman, Ontario Economic Council,
(519) 679-3711

AUTHOR'S BIOGRAPHICAL SKETCH

Alan Abouchar is professor of Economics at the University of Toronto. He has written a number of books dealing primarily with transportation economics and planning, urban economic analysis, and the Soviet economy.

Dr. Abouchar holds a Ph.D. (Economics) from the University of California at Berkeley and has served as a consultant to public sector agencies in Brazil, Iraq, Yugoslavia as well as in Canada. He has been associated with the University of Toronto for the last eight years.

AN ECONOMIC ANALYSIS OF THE HALL COMMISSION REPORT is available only at the Ontario Government Bookstore, 880 Bay Street, Toronto, Ontario M7A 1N8. Price: \$1.00. A cheque or money order payable to the Treasurer of Ontario must accompany all mail orders.

OTHER RESEARCH REPORTS prepared for the Ontario Economic Council can be obtained from the University of Toronto Press, 5201 Dufferin Street, Downsview, Ontario M3H 5T8, at major booksellers, or from the Ontario Government Bookstore at the address above.

SELECTION QUOTATIONS:

"The major implications for Ontario under this (Hall's recommendations on Ports and Terminals) concern the operations at Thunder Bay. There is little that can be said about these recommendations except that most of them appear to be conducive to smoother traffic flows at the port. ... since the Commission does not estimate the magnitude of the expenditures that would be required, we cannot do anymore at this stage than to state that some expenditures will be required and undoubtedly many of these would fall to the province." (Pg. 16)

"... the Hall Report reflects the view that the location of major agricultural processing industries has been conditioned by distortions in the price of one major input -- transportation -- and so has proceeded in an irrational and an inefficient way over the years. ... The report feels that these irrationalities could be corrected by eliminating transportation price distortions." (Pg. 16)

"Regarding the other item -- Compensation for Tax Loss of Local Governments -- we can make the following rough estimates. The total provincial and municipal taxes paid by the railways in Manitoba, Saskatchewan, and Alberta in 1975 was \$15.9 million, according to Statistics Canada. We would probably not seriously err if we assumed that this tax was proportional to mileage, so that the suggested withdrawal of 2,165 miles, about 9 percent of the total mileage operated in these provinces in 1975, implies a reduction of \$1.4 million in annual tax revenues for the governments affected. If we assume, further, that Ontario contributes 25-30 percent of this total, the Ontario contribution for the five years to compensate for the loss in tax revenues would be around \$2 million." (Pg. 22)

"... the abandonment of 2,165 miles of prairie branch lines will lead to higher road costs which, if it is true that the trucks are not now paying their directly variable cost, will also require a subsidy from all the provinces, including Ontario." (Pg. 25)

"The Hall Commission is not explicit concerning the source for this capital investment,(\$445 million for the prairie branch lines) but the tone of the report suggests that it intends it to come from the federal government rather than be recovered from users or be paid for by the provinces. In this case, a large amount -- perhaps 25-30 percent -- would come from reduction in expenditures which would otherwise be made in Ontario." (Pgs. 25-27)

"The system of prices facing buyers of goods and services is a critical influence on the efficiency of operation of the economy. ... Producers ... if they calculate their profit and loss in terms of cost to society, society will be better off. The key requirement for this desirable state of affairs is that private costs should at the same time be social costs, that the prices facing the private producer or consumer should correctly reflect the true burden that his decision places upon society." (Pg. 30)

"... in the transport sector it is usually very difficult to measure the true social costs in order to judge whether the prices facing the users of transport services are correct. But, since the transport sector pervades the activities of the economy, if the prices paid by the users for transport services do not reflect true social costs, the prices of derived products at subsequent stages of production will almost certainly not reflect true social costs." (Pg. 30)

"That the Hall Commission Report tends to neglect these truths must be apparent from the mere enumeration of the recommendations ... the farmer is explicitly absolved from payment of the full cost of transporting grain; federal assistance should be given to the provinces to defray part of the cost of the increased highway traffic following rail line abandonment, thus recognizing and accepting the fact implicit therein that this class of truck is not now paying the social cost which they impose upon the system. ... Neglect of these basic truths is manifest in the failure to consider whether the various premiums and surcharges, alluded to as inequities or distortions, may simply reflect the laudible attempt of a firm attempting to cover total costs, less statutory subsidies, subject to the low revenue constraint imposed by the legacy of the Crow's Nest Pass." (Pgs 31-32)

"Justifications there are in the Hall Commission Report for preferential treatment for the prairie grain economy, but one searches in vain for a valid justification based on national economic welfare maximization or national political purpose. Numerous references throughout the text to the contribution of Canada's grain production to the export surplus, are given in support of low grain rates without any logical analysis. ... the proper economic lever would appear to be through a system of compensating payments to the farmers by the Canadian Wheat Board or the provincial wheat pools, subsequently compensated by the federal government." (Pgs. 33-34)

"In advocating that the Canadian transport sector work toward the elimination of subsidies which reflect departures from incremental social cost (and which are not caused by prices which are set at low levels for income distribution objectives), which notion corresponds essentially to the marginal cost concept in the usual theoretical elaboration. The author is aware, of course, that he is challenging what has become a respectable tradition -- the 'second best' approach to the defense of subsidies in various industries or sectors." (Pg. 35)

"It is not clear what standards the Hall Commission used to decide which lines should be retained in the basic network protected to the year 2000 and which lines should be assigned to the Prairie Rail Authority. ... we would not accept the notion that the investment of \$445 million should be paid for out of public funds and not subsequently incorporated into the rate base." (Pg. 36)

"... 2,165 miles of branch lines were recommended for abandonment by 1981. Following this abandonment, it is expected that most of the grain now carried on these lines will be diverted to truck transport. The prairie provinces will incur higher road costs, and it is recommended that federal assistance be extended. But our concern here is what this implies about the user charge structure in general. For if the traffic does go by commercial carriers which do pay the full annual registration fee, and still there is a shortfall between user charge revenues and incremental highway costs, i.e., the directly variable costs of this traffic, the unavoidable conclusion is that the present user charge structure is not sound and that the big trucks are not paying for the costs that they impose on the system. This would be a distortion in the price system which encourages the use of the wrong truck size." (Pgs. 42-43)

"... our recommendation is that all statutory bases for freight rates, with the possible exception of the Maritime Freight Rates Act, be reviewed and probably eliminated on the grounds that they represent distortions in the Canadian price system." (Pg. 45)



NOT FOR RELEASE BEFORE: JULY 22, 1981

Municipal Fiscal Reform in Ontario: Property Taxes and Provincial Grants by John Bossons, Michael Denny and Enid Slack, The Ontario Economic Council, Discussion paper, price: \$4.00.*

TORONTO, July 22, 1981 -- Property tax reform in Ontario should set market value assessment as the base for property tax within a comprehensive property classification scheme, and should be accompanied by simultaneous reform of the municipal grant system, according to a discussion paper released by the Ontario Economic Council.

The study contains three papers prepared by University of Toronto economists John Bossons and Michael Denny, and Ontario Economic Council Research Officer, Enid Slack.

*This report reflects the view of the authors and not necessarily those of the Ontario Economic Council or the Government of Ontario. The Council establishes policy questions to be investigated and commissions research projects, but it does not influence the conclusions or recommendations of the authors. The decision to sponsor publication of this study was based on its competence and relevance to public policy.

Ontario's current property tax system (compared to a progressive income tax scheme) is considered regressive and inequitable. Bossons suggests reducing inequities by empowering municipalities "to change the ratios of assessed value to market value for particular classes of property". Ratio differentials would reflect the 'property-related services' provided by municipalities and the resultant 'user cost' of such services. He also recommends that municipal expenditures which are redistributive in nature be financed by "general taxes for which the definition of equity is based on the ability to pay."

Industrial and retail properties are overtaxed in comparison to other property classes, according to Bossons, and he recommends that they be exempt from education taxes. The lost revenue could be offset by larger provincial grants to municipalities. Excessive taxation on commercial and industrial property, he argues, is ultimately shifted to consumers and employees in the form of higher prices and lower wages.

The long-run economic impact of property tax reform on land use and land prices needs closer scrutiny, Denny warns.

"The incidence and capitalization effects are two of the economic consequences of reform. The long-run impact of the property tax reform has been almost totally neglected. Yet market forces will in the long run decide the issues and provide incentives for development. Land values are determined by the present value of alternative net income streams generated by particular uses. The use of land is determined by land values (and vice versa). Changes in the present value of properties resulting from the tax reform will alter the land use pattern and its rate of change."

The proposed market value assessment is an acceptable scheme, according to Denny. "Taxpayers must understand that the market value assessment is only an estimate of the market value of the property even during the assessment year" and "the high visibility of market value assessment makes the taxpayer honestly able to monitor his assessment, an important advantage over any other assessment base."

Implementation of property tax reform will require allocation of jurisdiction between the province and its municipalities. "The relative roles of the provincial versus the municipal government in deciding on the new tax structure is the final issue." Denny observes that "there is little indication that the province will delegate substantial power to the municipalities."

Slack is critical of Ontario's chaotic and complex grant structure. She argues that the current system "precludes a municipality from budgeting over any length of time (such as by making four of five year plans)".

Since the Province's resource equalization grant (REG) is determined by population and a municipality's revenue raising capability (equalized assessment), reform of the grant program should occur with reform of the property tax system. According to Slack, "it is essential that the grant structure in Ontario be rationalized as a whole rather than continuing to receive only incremental changes in specific programs."

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- 30 -

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Municipal Fiscal Reform in Ontario: Property Taxes and Provincial Grants (162 pages) is available only at the Ontario Government Bookstore, 880 Bay Street, Toronto, Ontario M7A 1N8. Price: \$4.00. A cheque or money order, payable to the Treasurer of Ontario, must accompany all mail orders.



NOT FOR RELEASE BEFORE: October 27, 1981

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The Canadian Charter of Rights and Freedoms, 1981 by Donald Smiley, The Ontario Economic Council, Discussion Paper, 90 pages, price: \$3.00.*

TORONTO, October 27, 1981 -- The Charter of Rights and Freedoms, should it become law, will profoundly affect all aspects of Canadian society, including the economy. There are clear economic implications in the entrenchment of mobility rights and intraprovincial equalization. Major changes in labour markets, for example, could result from provisions concerning discrimination and linguistic rights, depending on court interpretations. Many "economic" regulations and statutes will require revision. Uncertainty will likely persist for years as the courts gradually narrow the interpretation of the Charter's imprecise language.

Despite the Charter's importance and the heated public debate that has surrounded the process of constitutional change, few Canadians are well informed of the issues raised by the Charter. This paper, which does not deal with the economic implications explicitly, was commissioned by the Council to provide a critical review of the substance of the Charter by a recognized authority.

*This report reflects the views of the author and not necessarily those of the Ontario Economic Council or the Government of Ontario. The Council establishes policy questions to be investigated and commissions research projects, but it does not influence the conclusions or recommendations of the authors. The decision to sponsor publication of this study was based on its competence and relevance to public policy.

The study makes a comprehensive analysis of the Canadian Charter of Rights and Freedoms by examining the nature of human rights; the Charter's background; egalitarian, linguistic and mobility rights; emergency powers and the Charter's possible consequences. Although the author has in the past opposed both entrenchment and the procedure followed by the Canadian government in effecting constitutional change, the paper assumes that the Charter will become part of the constitution.

"It is emphasizing the obvious to say that 1980-'81 is a period of intense and bitter constitutional conflict in Canada and that if the Resolution is effected this will be done against the vigorous opposition of large numbers of powerful interests in the country, including of course eight provincial governments." The federal government foresees that the clamour will die down a few years after constitutional change but, says Smiley, "there is no body of analysis which helps us to predict even tentatively whether and under what circumstances losers in a bitter political conflict will be disposed to accept the legitimacy of the results."

"So far as the present Constitutional Resolution of which the Charter is a crucial part is concerned, one can be only very conjectural about its place in the future political consciousness of Canadians. It is likely that this will be determined above all by how Canadians come to perceive the circumstances of 1980-'81 under which the new constitutional regime was established and how favourably they view the activities of the judiciary in interpreting the Charter." The author's disposition is that judicial interpretation will not reflect an "activist and aggressive stance towards the Charter until those whose formative jurisprudential attitudes were shaped in the older traditions of Anglo-Canadian law are retired."

Rights, the study points out, are not absolute. They change with society's values, involve trade-offs between legitimate values, and can be protected only under a "complex set of institutional and attitudinal circumstances." Such circumstances, the study says, include an expert and aggressive free press and "creative institutional experimentation" like the use of federal and provincial human rights commissions and ombudsmen.

There are, Smiley says, justifiable "provincial diversities in human rights". He argues that "any Canadian regime of human rights which enjoined 'checkerboarding' would stifle both the territorial diversities which make federalism necessary and sustain federalism and the dispositions of

some provinces to be more liberal or egalitarian than others in the protection of human rights." The protection of human rights, he summarizes, is a complex field of public policy which "requires an ongoing process of trade-offs among the objectives the political community accepts as legitimate."

The study suggests that Ottawa's commitment to put the rights of the people before the rights of government was accompanied by the belief that "if Canadians came to feel more secure in their rights by way of an entrenched Charter and changes in the institutions of the central government they would be less disposed than otherwise to support a wider scope of provincial powers." There is, according to the report, "a disposition to change the Canadian political system and political culture in a fairly fundamental way by inducing Canadians to identify themselves and to frame their allegiances in terms of their rights as protected by national institutions and thus the ongoing provincialization which has become so pervasive will be weakened."

Even once the Charter is effected, the paper argues, "it might well continue to be a matter of some consequence that a significant proportion of the informed and influential public had these (anti-entrenchment) views. It is my impression, but certainly only an impression, that many of the more senior and respected members of the Canadian bar and bench believe as a matter of fundamental conviction that legislatures rather than courts should define and rank human rights. This continuing conviction may well have an important effect on how the Charter is regarded by that element of the informed public most closely involved with it, and how the Charter is given meaning and effect by the courts."

- 30 -

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Donald Smiley is a Professor of Political Science at York University and has taught at Queen's University, the University of British Columbia and the University of Toronto. He has written extensively on Canadian federalism and is past President of the Canadian Political Science Association as well as past Editor of Canadian Public Administrator. Professor Smiley is a Fellow of the Royal Society of Canada.

The Canadian Charter of Rights and Freedoms, 1981 (90 pages) is available only at the Ontario Government Bookstore, 880 Bay Street, Toronto, Ontario to those shopping in person. Price: \$3.00. Out-of-town customers may write: Publications Section, Fifth Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8, or telephone 965-6015 (toll-free long distance, 1-800-268-7540; in northwestern Ontario, 0-Zenith 67200). A cheque or money order payable to the Treasurer of Ontario must accompany all mail orders.



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NOT FOR RELEASE BEFORE: November 10, 1981

Distribution of Income and Wealth in Ontario: theory and evidence, the Ontario Economic Council, Research Study, 389 pages, price: \$17.50.*

TORONTO, November 10, 1981 -- A life-cycle framework would be a more effective basis for government policies intended to reduce economic inequality than current income figures, says a study released today by the Ontario Economic Council.

The paper was written by Charles M. Beach, Associate Professor of Economics at Queen's University, with the collaboration of David E. Card, graduate student of economics at Princeton University and Frank Flatters, Professor of Economics at Queen's University. The study provides 1) a survey of current literature on income distribution 2) a reference source of income and wealth distribution data for Ontario and 3) an evaluation of income distribution as a measure of the distribution of economic well-being.

*This report reflects the views of the authors and not necessarily those of the Ontario Economic Council or the Government of Ontario. The Council establishes policy questions to be investigated and commissions research projects, but it does not influence the conclusions or recommendations of the authors. The decision to sponsor publication of this study was based on its competence and relevance to public policy.

Empirical results of the study show how incomes vary with age, labour market attachments, experience, educational level, occupation, transfer receipts and investment benefits. An individual's net worth, according to the author, reflects life cycle patterns in asset holdings and debts usually determined by family investment in housing, and financial adjustments for retirement. Family size and composition, and adjustments for accrued capital gains and net worth holdings, the author suggests, contribute to the inequality of economic well-being. The paper indicates that Canada Pension Plan net benefits have substantial distributional effects, but their equalization ability is limited by cohort effects.

The lifestyle framework, according to the study, reveals that income differences are systematic and long-run, and stresses the need for a variety of government income policies to alleviate low-income problems arising from a variety of sources (pinpointed by the life-cycle framework): "The life-cycle framework also highlights the systematic and long-run nature of many income differences, and shows that behind the observed distribution of incomes lies more basic underlying distributions of wealth (human and non-human).

These stocks of wealth represent the productive bases for market rates of remuneration and serve as vehicles for transmission of economic opportunity and status from one generation to the next. Therefore, if there are to be policies for reducing economic inequalities, they ought to recognize the source of these inequalities in wealth stocks and not just consider observed differences in current income."

"For young households," the study says, "policies should concentrate on easing capital market restrictions, reducing employment discrimination and barriers to job entry, improving job market information, and providing opportunities for training and employment. Elderly, retired, and disabled persons, however, would be helped more by income-support, transfer payments, and social insurance, which would help even out the peak and subsequent trough of the income profile. For prime-aged families, the emphasis should instead be on improving long-run productivity, reducing the personal costs of employment (particularly for female heads with dependent children), increasing on-the-job training and information on how to acquire it, and shortening gaps in employment."

An important dynamic aspect of the distribution of income, the study points out, is often omitted from studies:

"Incomes may suffer unexpected shocks and instability from one period to the next, thereby preventing one from making long-run plans that could improve one's economic status. Such instability of income may also be correlated with average levels of income. If so, the mean income of a group would not alone be an adequate indicator of their long-run economic opportunities." There is a need, the paper submits, to determine the relationship between current income levels as currently reported and long-run income status. "Aggregate inequality figures are uninformative about underlying inequality in long-run income status."

The study argues that "conventional income distribution figures are only very imperfect estimates of the state of inequality in the distribution of economic well-being. The life-cycle theory reviewed in Part One (of the study) implies that current income is not a very good index of economic well-being, which is more closely related to the long-run or 'permanent' income and wealth status of a household. Observed current income differences reflect in part individuals' preferences for non-pecuniary benefits, future consumption opportunities, risk aversion, enterprise, leisure, and home activity. This

is particularly true of young and retired households at the low end of their income histories and of prime-aged households at the peak of their earnings profiles. Consequently, current income figures alone may give a distorted view of the distribution of economic well-being across the population."

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- 30 -

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